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THE ENTERPRISE FUND IN THE USSR

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In 1955, the enterprise director's fund was transformed into the enterprise fund for the improvement of workers' cultural and living conditions and of production."

The enterprise fund differs from the director's fund both with respect to the size of allocations made to the fund and the method whereby it is formed. Allocations of profit to the fund have been substantially increased, and the conditions under which allocations may be made have been changed. The rights and responsibilities of directors and chief accountants of enterprises, the main administrations, ministries, central institutions, and the sections of soviet executive committees with regard to the making of allocations to, and expenditures from, the fund have been changed. The method of utilizing the funds has also been altered.

The enterprise fund is established in all state industrial enterprises under all-union, republic, or local control, provided they operate on the cost accounting principle and have the right to maintain independent balance sheets. Instructions of the Ministry of Finance USSR state that this fund may be set up in subsidiary industrial enterprises, in transport, construction, trade, and other economic organizations only in the event that such organizations operate on a cost accounting basis, maintain independent balance sheets, and maintain an individual settlement account at the gosbank.

Enterprise profits serve as the source of the fund. In the event that an enterprise is planned to operate without profit, then savings resulting from cost reduction may be used. Allocations from planned profit or from savings are fixed at one, 2, 4, or 6 percent, depending on the particular branch of industry to which the enterprise belongs. In the case of profit plan or cost reduction plan overfulfillment, an additional allocation of 20, 30, 40, or 50 percent, again depending on the particular branch of industry, of the above-plan profit or above-plan saving is made to the fund.

Total annual allocations from planned and above-plan profits combined, or from savings, may not exceed 5 percent of the annual wage bill for industrial production or basic personnel, adjusted for the actual volume of commodity output.

Allocations are made on the basis of reported balances. Above-plan profits are defined as the difference between actual profits and planned profits.

Profits derived from the sale of consumer goods manufactured from waste materials, as well as profit earned from subsidiary agricultural operations, must be excluded in computing actual profit. Likewise, planned profits from the above-mentioned operations must not be included in determining above-plan profit.

Considerable funds are being placed at the disposal of the directors of plants, factories, mines, electric power stations, and other industrial enterprises through allocations to the Enterprise Fund. For example, during 1954, an average of 255 rubles per worker was allocated to the director's fund of the enterprises of the Ministry of Electric Power Stations, and in the Ministry of Ferrous Metallurgy an average of 218 rubles was allocated. Allocations per worker were even higher in individual enterprises.

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Because of greater allocations to the fund and higher profitability, transfers of profits to the fund were considerably larger in 1956.

The enterprise fund is part of the net income (profit) of the enterprise. Consequently, an increase in profits leads to an increase in the size of the fund. Total allocations, and hence the size of the fund itself, depend directly on the enterprise's operations, i.e., on production and sales plan fulfillment, on cost reduction, on quality improvement, and on the prevention of losses, waste, and nonproductive outlays in excess of those allowed in the plan.

The enterprise fund is related directly to cost accounting and is a powerful factor in stimulating improvement in an enterprise's operations.

On 1 January 1956, the size of allocations to the enterprise fund was increased significantly over the former allocations to the Director's Fund. In the case of enterprises of the ferrous and nonferrous metallurgy, coal, oil, cement, petroleum, asbestos, and mica industries, and the chemical, nitrogen, and superphosphate enterprises of the Ministry of Chemical Industries, the allocations were increased from 5 percent to 6 percent with respect to planned profit and from 45 percent to 50 percent in the case of above-plan profit or cost reduction. For enterprises of the ministries of chemical, aviation, shipbuilding, defense, and motor vehicle industries, and also other machine building industries, as well as of the ministries of timber, paper, and wood processing of the building materials industry, and of electric power stations, the rate of deduction from planned profit rose from 2 percent to 4 percent, while the rate of deduction from above-plan profit or cost savings increased from 30 percent to 40 percent.

In Group B industrial enterprises, allocations from planned profit were maintained at the previous rate, but in the case of above-plan profit they were raised from 15 percent to 20 percent. This was also true for the textile industry.

Different rates of allocation to the fund are established principally with a view to stimulating the development of heavy industry and take into account the profit differentials which exist in various branches of industry.

As previously, allocations to the fund are made subject to the following conditions: (a) that the enterprise has fulfilled its commodity production plan; (b) that it has met its cost reduction goal; (c) that it has met its profit goal; and (d) that it has fulfilled its product assortment plan. An enterprise must fulfill its planned goals with respect to reducing the cost of comparable output below that of the previous year in both absolute and relative terms. Failure to fulfill any one of these conditions voids the right of the enterprise to establish the fund.

Investigation of Ministry of Finance USSR reports regarding allocations to the director's fund during recent years showed that some enterprises, main administrations, and ministries had demanded that allocations to this fund be made even in those cases in which the conditions required for its establishment had not been met, i.e., the comparable output cost reduction goal, the total cost and profit goals, and the production assortment plan had not been fulfilled. For example, the Ministry of Electric Power Stations proposed unjustifiably that allocations amounting to 45,000 rubles be made to the director's fund of the Kirovsk Trust's Vas'kinsk peat enterprise, and that 480,000 rubles be allocated to the fund of the peat enterprise of the Chisto Chernoramensk Trust, although neither of these had fulfilled its cost reduction goal.

In the Decrees of the July 1955 Planum of the Central Committee of the CPSU it was noted that a number of ministries, departments, and enterprises had not

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yet abandoned the outmoded practice of fulfilling their production plans in gross terms, but not in terms of product assortment.

Some enterprises fulfill and exceed gross output plans by producing secondary items in great quantities at the expense of basic-type products. They nevertheless insist that allocations to the director's fund be approved.

The ministries, main administrations, executive committee sections, and, especially, their chief (senior) accountants must combat attempts to infringe on the method whereby the enterprise fund is to be formed. Only then will the fulfillment of plans for the production of specified goods of the proper grade be promoted.

It should be noted that many main administrations, ministries, and executive committee sections make inadequate checks on the correctness of transfers to the fund. On the basis of 1954 operations, the Ministry of Petroleum Industry and its main administrations proposed to make allocations in the case of certain petroleum industry administrations regardless of whether the plan for utilizing the gas recovered as a by-product of petroleum extraction had been fulfilled. In addition to making only partial use of the gas, these administrations, released millions of cubic meters of gas into the air. The Ministry of Finance USSR refused to make full allocations to the fund in these cases.

The former method under which computations relative to allocations to the director's fund were submitted to financial organs and agreed on has been abolished. The enterprise fund is now approved on the basis of annual results, by the ministries, central institutions, and the sections of the soviet executive committees. Thus, the responsibility of directors and especially chief accountants for the correct computation of allocations has been increased. Chief accountants must personally verify the accounts of each enterprise.

In verifying allocations, particular attention must be given to the proper determination of planned and above-plan profit or savings derived from cost reduction. In determining the amount of such profit (or savings), allowance must be made for deviations from the plan which are due to causes for which the enterprise cannot be held responsible and which were not foreseen in the plan. Instructions issued by the Ministry of Finance USSR list the following permissible causes of deviation: (a) changes in wage rates and wage supplements, interest and tax rates, charges for municipal services, depreciation rates, and changes in the prices of manufactured goods; and (b) changes in the prices of raw materials, semimanufactures, fuel, railroad freight rates, and other materials.

Other factors which result in justifiable deviations from profit plans are determined by ministries, central institutions, and worker soviet executive committee sections.

Investigation by financial organs of computations relative to director's fund allocations have shown that the directors and chief accountants of economic organizations did not make full deductions from above-plan profits of those revenues attributable to exogenous factors. Moreover, allocations were found to be considerably inflated in the computations submitted.

An enterprise may earn above-plan profits because the funds provided for the training of personnel, scientific research, and efficiency promotion, which are part of cost, have not been entirely expended. Such saving must not be included in above-plan profit or above-plan cost reduction.

In determining the total allocation to the enterprise fund from above-plan profit or cost savings, that part of profit which has been previously set aside for the payment of premiums for all-union socialist competition must be deducted.

This procedure has been established under Point 9 of the instructions issued by the Ministry of Finance USSR relative to the enterprise fund. The same method was formerly used in the case of allocations to the director's fund.

Enterprises, trusts, and ministries have frequently made allocations to the fund which included that part of above-plan profits or savings which had been set aside for payment of premiums. In these cases the allocations were made without authority.

For example, the directors and chief accountants of the "Burovaya Tekhnika" plants imeni Vorovskaya in 1954 allocated several hundred thousand rubles of above-plan profit for the payment of competition premiums; and the directors of these enterprises, the "Soyugemash" Trust, and the Ministry of Geology and Mineral Conservation erroneously made allocations to the director's fund from these same profits.

In examining reports for 1954, significant reserves were revealed in the plans of some enterprises for production expansion, price reduction, and profit accumulation. In the case of the Leningrad coke gas plant, the Moscow plant "Neftegaz", the gasoline plant of the "Grozneftegaz" Trust, the water main office of the "Grozneftezavody" association, and the Moscow Plant "Regotmass" of the Ministry of Petroleum Industry, only 50 percent of the claimed amount was approved for allocation to the fund on their 1954 operations. The directors and chief accountants of these enterprises agreed to this solution of the problem.

The most important condition for proper allocation is a thorough, economically competent analysis of the financial and economic operations of an enterprise. Responsibility for this analysis lies on the chief accountants of enterprises under the terms of the statute governing these individuals. In analyzing the total operations of an enterprise, an accurate determination of planned and actual profit, cost plan fulfillment, assortment plan fulfillment, etc., is necessary. This information is absolutely required in order to determine the correct amount to be allocated to the enterprise fund.

As an exception to the general rule, ministries, directors of central institutions, and directors of worker soviet executive committee sections do have the right in certain cases to permit allocations to the enterprise fund in whole or in part where the enterprises fail to fulfill their product assortment plans. However, in each individual case the reasons for nonfulfillment must certainly be carefully investigated.

It should be remembered that such enterprises are not permitted to make even partial allocations to the fund if the commodity production, cost reduction, and profit plans have not been fulfilled.

Along with the increased rights granted to directors, chief accountants, ministries, central institutions, and executive committee sections, their responsibility for the accuracy of allocations to the fund and for expenditure of the fund's assets has been increased.

Enterprise directors and accountants bear responsibility for making proper advance allocations for first-, second-, and third-quarter operations and also for the submission of computations regarding annual allocations, as well as for the use of the fund for the purposes intended.

Ministries, main administrations, and executive committee sections are responsible for the proper approval of enterprise funds. They must keep track continuously of how enterprises spend the money which has been allocated to the fund. In some ministries and departments this control is inadequate. Verification of the correctness of allocations as well as the use of the fund's assets must be included in the program of intradepartmental audit. Special checks and audits should also be made.

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These are instances in practice where enterprises have submitted incorrect accounts and significantly increased allocations to the fund, as well as cases in which ministries, central institutions, and executive committee sections have approved funds for enterprises that have ignored the conditions required for its establishment or have given unlawful orders for the expenditure of money from the fund. It is the duty of the chief accountant to call the attention of directors in writing to the illegal nature of their instructions. He must also report such cases as involve illegal authorization or expenditure of funds to the Ministry of State Control.

It should be remembered that a chief accountant who does not report illegal instructions to the Ministry of State Control shares responsibility with the director who issues such instructions.

The party and government ascribe particular importance to the problems of technological progress in industry. In the decrees of the July Plenum of the Central Committee of the CPSU relative to goals for the utmost development of industry, technological progress, and improvement in the organization of production, a need for simplification of the financing of new techniques is indicated.

Half the enterprise fund is spent for the introduction of new technology, modernization of existing equipment, production expansion, and construction and repair of housing facilities, and half is spent for the improvement of cultural and personal services, the distribution of prizes, the acquisition of sanatorium accommodations, and the rendering of aid to workers.

The statute relative to the director's fund did not provide for outlays from the fund for the introduction of new technology or the modernization of existing equipment. The earmarking of a portion of this fund for these purposes promotes the goal of further technological progress.

Many enterprises do not make full use of the fund mainly because they undertake housing construction on too small a scale, and because organization with respect to the expansion of subsidiary enterprises is poor. In the case of the Ministry of Electric Power Stations, unspent balances in the director's fund on 1 January 1955 amounted to 45.8 million rubles. Full use of the enterprise fund, particularly for housing construction, children's institutions, the equipment of sanatoriums, clubs, cafeterias, and for the payment of premiums and subsidies will promote a rise in the material and cultural level of workers.

Industrial administrations and the divisions of the Ministry of Finance USSR, the finance ministries of union and autonomous republics, and kray, oblast, city, and rayon financial organs, as well as the Control and Audit Administration of the Ministry of Finance USSR, check the accuracy of fund allocations and expenditures through the system of follow-up (posledduyayushchy) control.

The primary reason for such a check is to determine whether the directors and chief accountants of enterprises, main administrations, ministries, central institutions, and executive committee sections are conforming to the statute relative to the enterprise fund and the instructions of the Ministry of Finance USSR, whether profits have been correctly computed and the proper percentages deducted from planned and above-plan profit for transfer of the fund, whether the conditions giving the right to make such allocations have been met, and whether the method of making quarterly advance allocations has been observed and the money spent for the purposes intended.

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A financial organ which discovers a violation must order the economic organization to eliminate the practice and must issue instructions to it in writing. In these instructions the disclosed violation is described briefly (i.e., the sections of the statute or instructions which have been violated are indicated), the amount of damage and the names of the guilty parties are stated, and the date by which the violation must be corrected and a report filed with the financial organ is fixed.

Many financial organs still fail to make sure that their proposals are carried out and frequently their mandatory instructions are not followed.

A careful and rigorous check of accounts for allocations to the fund by the chief accountants of enterprises, economic organizations, and ministries, as well as control on the part of financial organs, will promote proper allocations to and expenditures from the enterprise fund and at the same time will improve enterprise operations.

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